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SUBJECT: PREACHING FREE MARKETS IN MALAWI

Introduction

1. Over the past several months, Mission Lilongwe's economic team has undertaken a concerted effort to promote the virtues of free markets among Malawi's key decision makers. The country has made halfhearted efforts toward market reforms in recent years, and the new president is pressing a pro-growth development agenda. But there is widespread popular distrust and misunderstanding of the private sector's role in leading economic growth. Malawi has excellent growth potential, but only if the government will lift its heavy hand and permit markets to work. We are actively using a combination of diplomatic persuasion and public diplomacy tools to help move Malawi in the direction of reduced regulation, greater liberalization, and free markets.

Ripe for Conversion

2. Malawi is a classic example of an African state-controlled economy that is making a halting transition toward a market-based system. Many of the country's economic institutions were born in the pre-independence heyday of British socialism in the 1940s and 50s. When Hastings Banda came to power in 1963, he applied the socialist model with a vengeance, exerting government control in virtually every major sector of the economy. Banda launched dozens of parastatal companies to run almost everything-- agriculture, tourism, retail, manufacturing, transportation, and much more.

3. The enthusiasm of the youthful country combined with sizeable injections of donor funding carried the parastatals along for a while, but like similar institutions elsewhere in the world, their performance eventually began to lag. While the developed world moved toward deregulation and liberalization in the 1980s, the aging Banda regime stubbornly held onto those economic dinosaurs. By the early 1990s, many sectors of the economy were virtually dead, strangled by government red tape and a lack of real economic incentives. The final insult came with the corrupt Muluzi administration (1994-2004), which looted the remains of many state corporations and ran them into bankruptcy.

4. At the prodding of donors, Malawi launched a privatization program in 1996, and the government began to shed some of these unprofitable enterprises. Over 50 companies were privatized, and many were successful. But widespread corruption and an economic downturn caused by excessive government borrowing put a serious brake on private sector growth from the late 1990s. As in other countries, there was a popular backlash against the privatizations, with accusations that state companies had been sold at giveaway prices. When President Mutharika came to power in mid-2004 he halted the privatization program to investigate corruption, and only restarted it in January of this year.

Getting the Idea, But Not Yet True Believers

5. As Mutharika begins to lead Malawi toward reform, we are finding that commitment to free market principles among government policymakers is quite thin. An economist by training, Mutharika speaks often of the need to "transform Malawi from a consuming country to a producing country". He promotes the virtues of hard work and self-reliance, and touts the private sector's role in creating growth.

6. But it is clear that many government ministers, parliamentarians, and the public in general don't fully grasp the basic concepts of a market economy. Because of the long history of state intervention, Malawians tend to look first to government for solutions to most problems. Since the Banda days, government has always told people what to do, right down to when to plant their crops and when to harvest. This mentality persists to the present day; last week the ministry of agriculture placed an ad in local papers telling farmers to weed their fields. People are often suspicious of the market, because the reform process

has taken away some of the stability of the old system and contributed to a sense of uncertainty and insecurity.

17. Malawians, including senior economic policymakers, see the value and necessity of economic transformation, but they tend to think that government should lead the process. The idea that government can stand aside and let the private sector take the risk and do the work is still a foreign concept.

Spreading the Message

18. In this target-rich environment, we take every opportunity to sell the free market message, whether we are talking about food security, transportation, agriculture, telecom, anti-corruption, or any of the myriad topics on which we engage the GOM. In every conversation with a minister or other senior official we purposely plug the virtues of free markets and the private sector.

19. We actively participate in the National Action Group (NAG), a unique bimonthly dialogue forum of leaders from government, private sector and donors which seeks to identify problems with the business climate. Our presence and that of other donors, particularly at head of mission level, serves to pressure senior GOM officials to attend and interact with their private sector counterparts. The forum has been very successful at identifying key constraints to investment and giving government a clear plan of action to address the problems.

110. We are using a superb PBS video series called "Commanding Heights: The Battle for the World Economy" as a teaching tool. This excellent and accessible three-part series tells the story of the new global economy and illustrates how the world has moved from favoring state controlled economies for most of the 20th century to liberalized free markets in the past 25 years. The video shows how formerly state-controlled economies like Poland and Russia have made the difficult transition to markets, and how developing countries like India and Tanzania have become part of the global economy. Recently the Charge and Econoff invited a select group of ministers and senior policymakers for a screening of the video, over dinner at the Ambassador's residence. The group was enthralled, and spent two hours afterwards discussing it. We are planning several more screenings for a range of economic policymakers. We have also presented a copy of the "Commanding Heights" DVD to President Mutharika's office.

111. We are purchasing a selection of popular economic books that reinforce the free market message, for presentation to policymakers and opinion leaders. We are targeting our Information Resource Center outreach audience with articles on the same theme.

112. Finally, we are telling our own success stories. Over the past several years, USAID has fostered a quiet revolution in the development of the private sector in Malawi, particularly in the smallholder agricultural sector. USAID projects in dairy, coffee, paprika, aromatic rice, groundnuts and other agricultural products have boosted incomes for tens of thousands of farmers and have spurred a growing diversification of agriculture in Malawi. Thanks to those programs, more people are growing high value cash crops and can afford to buy food and improve their lives. This change has gone largely unnoticed by many government officials, who still tend to think of agriculture in terms of traditional subsistence farming. New USAID programs in microfinance are helping to spur a budding small business sector in urban areas, with particular success in empowering women entrepreneurs. We are actively telling these success stories, and we will continue to increase our efforts.

113. Old habits are very hard to break, but our message to Malawians is that if they truly want to realize President Mutharika's dreams of building a modern society and joining the global economy, they must take the politically difficult steps to reduce the role of government in the economy, unleash the private sector, and let the markets work.

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